

## Message Text

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 5040

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 1 OF 4 QUITO 2278

E.O. 11652: GDS

TAGS: PINT, PFOR, EGEN, MILI, EC

SUBJ: ECUADOR - THE RODRIGUEZ GOVERNMENT AT THREE YEARS

1. SUMMARY: AFTER THREE YEARS, GENERAL RODRIGUEZ LARA REMAINS SECURELY IN POWER. HIS GOVERNMENT, STRIVING FOR TECHNICAL COMPETENCE AND SEEKING SOME PROGRESS TOWARD THE SOCIAL, ECONOMIC, AND AGRICULTURAL DEVELOPMENT OF ECUADOR, IS NOT SERIOUSLY THREATENED FROM ANY QUARTER. ALTHOUGH THERE IS A RISING UNDER-CURRENT OF DISCONTENT WITH INFLATION AND COMMODITY SHORTAGES, THE CIVILIAN POLITICAL OPPOSITION IS STILL RELATIVELY WEAK AND DISORGANIZED. ANY REAL CHALLENGE TO RODRIGUEZ WOULD HAVE TO HAVE A STRONG MILITARY BACKING, AND WE KNOW OF NO DECISIVE CURRENT DIVISIONS WITHIN THE MILITARY. ECONOMIC PROBLEMS ARE PARAMOUNT, WITH A NEARLY 25 PERCENT RATE OF INFLATION. ALTHOUGH MUCH OF THE POPULATION STILL LIVES  
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IN A PRIMARILY SUBSISTENCE ECONOMY, MANY URBAN DWELLERS'

(PARTICULARLY SALARIED EMPLOYEES') INCOMES HAVE NOT KEPT PACE WITH THE INFLATION. OIL REVENUES HAVE ENABLED THIS GOE TO BUY ITS WAY OUT OF VIRTUALLY EVERY PROBLEM IT HAS FACED, BUT ECUADOR'S PROVEN OIL RESERVES ARE LIMITED, AND IN THE ABSENCE OF SIGNIFICANT FURTHER DISCOVERIES, IN ABOUT ANOTHER TWO YEARS THE GOE WILL ALMOST CERTAINLY BE FACING SHRINKING REVENUES AND SEVERE BUDGETARY PRESSURES. ECUADOR'S FOREIGN POLICY IS CLEARLY AIMED AT DEVELOPING TIES WITH THE THIRD WORLD, BOTH FOR INTERNAL POLITICAL REASONS AS WELL AS TO LESSEN HER PRESENT SENSE OF BEING BUT AN ECONOMIC SATELLITE OF THE US, WITH WHOM SHE REMAINS CLOSELY TIED. MOST OF HER SERIOUS FOREIGN POLICY PROBLEMS ARE WITH THE US, MOST OF THEM OVER ECONOMIC AND NATURAL RESOURCE ISSUES. WE MAY INCREASINGLY HAVE TO ADJUST OUR PRESENT RELATIONSHIP TO A GROWING NATIONALISM WHICH CAN AFFECT NOT ONLY OUR COMMERCIAL PRESENCE HERE, BUT THE OVERALL POLITICAL ORIENTATION OF ECUADOR, VIEWED IN THE CONTEXT OF AN UNSTABLE ANDEAN REGION, AS WELL. AS INTERNAL ECONOMIC AND POLITICAL PRESSURES GROW, WE MAY ALSO INCREASINGLY SEE A TENDENCY ON THE PART OF THE GOE TO TRY TO DISTRACT THE PUBLIC WITH A STRIDENT NATIONALISM, COUPLED WITH ATTACKS ON GREAT POWER AND TRANSNATIONAL CORPORATE INTERESTS -- ACCOMPANIED BY BEHIND-THE-SCENES REMARKS TO US TO IGNORE THE RHETORIC AND BELIEVE THEIR PROFESSIONS OF FRIENDSHIP. SO LONG AS ESSENTIAL HUMAN RIGHTS ARE HONORED, WHICH, IN THE MAIN, THEY ARE, ECUADOR'S INTERNAL POLITICAL PROCESSES ARE OF ONLY MARGINAL CONCERN TO US. END SUMMARY.

2. INTERNAL POLITICAL AFFAIRS: ON FEBRUARY 16TH, PRESIDENT RODRIGUEZ LARA STEPPED TO THE PODIUM, ADDRESSED THE NATION, ANNOUNCED THE SUCCESSFUL COMPLETION OF THE THIRD YEAR OF THE NATIONAL REVOLUTIONARY GOVERNMENT, AND PROMISED BIGGER AND BETTER THINGS FOR THE FOURTH. HE SPOKE AGAINST A BACKGROUND OF THREE YEARS OF STABILITY IN GOVERNMENT, RARE IN ECUADOREAN POLITICS, AND VIRTUALLY ABSENT DURING THE DOZEN OR SO YEARS BEFORE THE MILITARY STEPPED IN IN FEBRUARY OF 1972 TO PULL THE CURTAIN ON THE MOST RECENT OF FORMER PRESIDENT VELASCO IBARRA'S FIVE INCUMBENCIES (NONE OF WHICH WERE CONSTITUTIONALLY COMPLETED). AND HE HAD THE ADVANTAGE OF SPEAKING TO A NATION WHICH IS STILL BY AND LARGE GRATEFUL TO THE MILITARY

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FOR HAVING INTERVENED WHEN DEMOCRACY (AS ECUADOREANS KNEW IT) HAD CLEARLY RUN OFF THE RAILS, AND SOME STIFF MEDICINE WAS NEEDED TO PULL THE COUNTRY THROUGH THE HANG-OVER FROM THE EXCESSES OF ITS POLITICAL PROCESSES.

3. THE FIRST SIGNS OF RENASCENT POLITICAL FERMENT HAVE, HOWEVER, NOW BEGUN TO BUBBLE FROM BENEATH THE SURFACE. ALTHOUGH MASSIVE INDIFFERENCE STILL CHARACTERIZES THE VAST

MAJORITY OF "THE BODY POLITIC" (A FIGURE OF SPEECH IN THE ECUADOREAN CONTEXT), A HANDFUL OF POLITICALLY-MOTIVATED INDIVIDUALS AND GROUPS HAVE BEGUN TO STIR. THEY ARE NO LONGER SATISFIED WITH THE MERE STABILITY THE NATIONAL REVOLUTIONARY GOVERNMENT HAS BROUGHT, AND ARE INCREASINGLY AWARE OF THE WORK THAT REMAINS TO BE DONE TO RAISE ECUADOR OUT OF THE RANKS OF PRIMARY PRODUCERS, WITH SUCH A SMALL PERCENTAGE OF PEOPLE SHARING IN A MODERN STANDARD OF LIVING. NOTWITHSTANDING THE PROGRESS THAT HAS THUS FAR BEEN ACHIEVED IN EDUCATION, CONSTRUCTION OF ROADS, ELECTRIFICATION AND PUBLIC HEALTH ETC, EXPECTATIONS ARE RISING FAST, FASTER THAN THE GOVERNMENT OR ECONOMY WILL SHORTLY BE ABLE TO PROVIDE.

4. EDITORIAL COMMENT HAS BEGUN TO APPEAR CALLING FOR A REVIEW OF THE ROLE OF THE ARMED FORCES IN THE NATIONAL LIFE, AND POLITICAL COMMENTATORS HAVE STARTED ASKING WHAT ECUADOREANS WANT TO FOLLOW THE PRESENT GOVERNMENT. ALL OF THE TRADITIONAL POLITICAL PARTIES EXCEPT THE COMMUNISTS HAVE ASKED FOR AN EARLY RETURN TO CONSTITUTIONAL GOVERNMENT, AND THERE HAS ALSO BEEN SOME RUMBLING BENEATH THE SURFACE BY PROFESSIONAL ORGANIZATIONS, SOME OF WHOSE MEMBERS PERHAPS LUST FOR THE EXERCISE OF POLITICAL POWER AGAIN. AMONG RECENT MANIFESTATIONS, A THREATENED STRIKE BY DOCTORS AND MEDICAL PERSONNEL WAS AN AVOWEDLY POLITICALLY-MOTIVATED MOVEMENT, AND WAS MET AS SUCH BY THE GOVERNMENT. THE NATIONAL UNION OF EDUCATORS THREATENED A NATIONWIDE STRIKE OVER LOW PAY AND UNEMPLOYMENT AMONG TEACHERS, BUT THE GOVERNMENT ADOPTED A TOUGH STANCE AND FORCED THEM TO BACK DOWN. THE LOCAL LAWYERS' ORGANIZATION, TAKING ADVANTAGE OF LEGITIMATE COMPLAINTS OF THE CHAUFFEURS' UNIONS, WAS APPARENTLY THE PRINCIPAL INSTIGATOR OF A STRIKE TWO MONTHS AGO IN MANTA, ECUADOR'S SECOND PORT AND SIXTH LARGEST CITY. CHAUFFEURS' UNIONS IN OTHER PARTS OF THE COUNTRY (POWERFUL BECAUSE THEY CONTROL TRANSPORTATION

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OF GOODS AND FOODSTUFFS) HAVE SHOWN SIGNS OF RESTIVENESS, AND THERE ARE OTHER ORGANIZATIONS WHICH ARE INCREASINGLY CONCERNED WITH INFLATION GENERALLY, THE SOARING COST OF LIVING IN PARTICULAR, AND LAGGING PRODUCTION IN THE AGRICULTURAL SECTOR.

5. STUDENT GROUPS FROM THE VARIOUS ANARCHIC UNIVERSITIES FEEL OBLIGED FROM TIME TO TIME TO MAKE THEIR EXISTENCE KNOWN, BUT THIS USUALLY ONLY TAKES THE FORM OF SCARCELY-NOTICED PAID ADVERTISEMENTS IN THE NEWSPAPERS. ON THAT HANDFUL OF OCCASIONS WHEN THEY HAVE ACTUALLY TAKEN TO THE STREETS, DEMONSTRATIONS HAVE BEEN SIMPLE AND SHORT-LOVED. WHEN THEY REALLY BECOME PESKY, THE POLICE SIMPLY TEAR-GAS THEM UNTIL THEY GO AWAY, WITHOUT A GREAT DEAL OF RANCOR ON EITHER SIDE. THE STUDENTS, HOWEVER, CONSTITUTE A POTENTIAL

TIME BOMB. SINCE THE GOVERNMENT SWEPT AWAY ENTRANCE REQUIREMENTS, OPENING UNIVERSITY DOORS TO ANYONE WITH A HIGH SCHOOL DIPLOMA, ENROLLMENT HAS SOARED PAST THE 90,000 MARK, OR WELL BEYOND THE CAPACITY OF THE SOCIO-ECONOMIC SYSTEM TO ABSORB THEM. THEIR ATTITUDES TEND, AS IS OFTEN THE CASE, TO BE FASHIONABLY LEFTIST, IN SOME CASES MARXIST, BUT THIS

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DOVETAILS NICELY WITH THE NATIONALISM OF THE PRESENT GOVERNMENT, THUS POSING NO VIOLENT IDEOLOGICAL CLASH IN THE SHORT TERM. PRESENTLY POORLY ORGANIZED AND ILL-TAUGHT, STUDENTS AND FACULTY CAN, HOWEVER, BE EXPECTED TO BECOME A POTENT AND POTENTIALLY THREATENING POLITICAL FORCE WHEN IT BECOMES CLEAR (AS IT MUST) THAT THEIR EXPECTATIONS OF A JOB COMMENSURATE WITH THEIR COLLEGE EDUCATION CANNOT BE PROVIDED IN A SOCIETY SO LIMITED IN SIZE AND DEVELOPMENT.

6. THERE ARE A NUMBER OF POLITICAL PARTIES (MOST RECENTLY

DESCRIBED IN QUITO'S A-128 OF DECEMBER 13, 1974), BUT MOST ARE RELATIVELY INACTIVE AGGLOMERATIONS OF VESTED INTERESTS, HELD TOGETHER BY THE MAGNETISM OF A SINGLE LEADER WHOSE PERSONAL CHARISMA IS MOST OF WHAT PREVENTS THEM FROM DIS-INTEGRATING. ALTHOUGH SOME OF THE MOST PROMINENT PERSONALITIES ARE EITHER DISCREDITED OR AGING POLITICIANS (VELASCO  
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IS 81, CORDOVA IS 82, GALO PLAZA AND PONCE ARE 69 EACH), THERE ARE ALSO A HANDFUL OF MUCH YOUNGER POTENTIAL STARS-IN-THE-WINGS WHO, WHEN THE TIME IS RIGHT, WILL BE THE ONES TO FORM ELECTED CIVILIAN GOVERNMENTS OF THE FUTURE. AMONG THESE ARE LIBERAL PARTY LEADER FRANCISCO (PANCHITO) HUERTA, 34, FORMER MAYOR OF GUAYAQUIL, FOR A TIME EXILED TO THE ORIENTE, AND AN ECONOMIST OF SOME REPUTE; ASSAD BUCARAM, 53, ALSO FORMERLY MAYOR OF GUAYAQUIL, SELF-DESCRIBED (AND ACCEPTED AS SUCH) CHAMPION OF THE POOR, WIDELY BELIEVED TO BE SCRUPULOUSLY HONEST, FRONT-RUNNER FOR THE CONCENTRATION OF POPULAR FORCES IN THE ABORTED PRESIDENTIAL ELECTIONS OF 1972; AND JAIME MONCAYO, 34, HARVARD-TRAINED ECONOMIST WHOSE POLITICAL TIES HAVE NOT BEEN DEFINED, AND WHO SERVES AS MINISTER OF FINANCE (AND ONE OF FOUR CIVILIANS IN THE PRESENT CABINET). QUITO'S MAYOR, SIXTO DURAN, 53, IS WIDELY BELIEVED TO HARBOR PRESIDENTIAL AMBITIONS, AND HAS BY VIRTUE OF HIS PRESENT POSITION MANAGED TO KEEP HIMSELF IN THE PUBLIC VIEW WHILE NOT BEING DIRECTLY ASSOCIATED WITH THE MILITARY GOVERNMENT; HIS ACCEPTING REAPPOINTMENT BY THE MILITARY GOVERNMENT TO A SECOND TERM MAY, HOWEVER, HAVE TARNISHED HIS IMAGE.

7. VIRTUALLY THE ONLY POLITICAL PRESSURE WHICH WOULD STAND A CHANCE OF ACTUALLY FORCING A CHANGE, HOWEVER, WOULD HAVE TO COME FROM WITHIN THE MILITARY. IT WOULD MOST LIKELY BE TRIGGERED BY INTERNAL MILITARY ISSUES, ALTHOUGH WIDESPREAD CHARGES OF CORRUPTION COULD LEAD TO PRESSURES WHICH MIGHT PROVOKE THE MILITARY INTO DECIDING UPON A CHANGE OF LEADERSHIP. THE MILITARY IS NOT A MODEL OF CONTENTED SATISFACTION. ALTHOUGH THERE ARE A SUBSTANTIAL NUMBER OF SENIOR OFFICERS WHO ENJOY POSITIONS OF POWER AND PRESTIGE, AND WHO, NOT INCIDENTALLY, ALSO ENJOY ACCESS TO THE FRUITS OF THE OIL BOOM, A NEW "ORGANIC LAW" HAS ALTERED RETIREMENT PROVISIONS, NOW REQUIRING MUCH LONGER ACTIVE SERVICE. AT THE SAME TIME, IN A MANNER NOT UNKNOWN IN OTHER SOCIETIES, THE LARGE NUMBER OF GENERAL AND FLAG OFFICERS TENDS TO KEEP JOBS FROZEN, DENYING ADVANCEMENT TO BRIGHT, CAPABLE AND AMBITIOUS MIDDLE-GRADE OFFICERS. AND THERE IS MOUNTING FRUSTRATION OVER THEIR INABILITY TO QUICKLY MODERNIZE THEIR EQUIPMENT AND STRUCTURE SO AS TO BE ABLE TO MOUNT AT LEAST A CREDIBLE DEFENSIVE FORCE AGAINST THE POSSIBILITY OF A THREAT FROM  
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THE SOUTH. WE ALREADY KNOW THAT THERE IS A MEASURE OF REST-LESSNESS IN THE NAVY, BUT THIS IS UNLIKELY TO MANIFEST ITSELF AS A SIGNIFICANT THREAT TO RODRIGUEZ. RECENT COUP RUMBLES CAME TO NAUGHT IN PART BECAUSE OF A LACK OF MILITARY SUPPORT, AND PRESIDENT RODRIGUEZ HAS ALREADY SURVIVED, WITH OUTWARD CALM, THE FIRST SERIOUS CHALLENGE TO HIS GOVERNMENT. HE STILL ENJOYS A STRONG PERSONAL BASE, AND MANY POTENTIAL CHALLENGERS FROM WITHIN THE SERVICES HAVE BEEN EFFECTIVELY NEUTRALIZED BY PERSONNEL CHANGES WHICH HAVE PUT HIS LOYALISTS INTO A SUCCESSION OF SENSITIVE POSTS.

8. THE MILITARY GOVERNMENT, AS IT HAPPENS, HAS CONSISTENTLY SAID THAT IT LOOKS FORWARD TO THE (UNSPECIFIED) DAY WHEN IT WILL BE ABLE TO BOW OUT, SECURE IN THE KNOWLEDGE THAT IT HAS DONE ITS BEST BY GOD AND ITS COUNTRY. THERE HAVE BEEN A NUMBER OF BAROQUE LITANIES ABOUT A RETURN TO CIVILIAN RULE: ON MARCH 24TH, THE PRESIDENT SAID "WE DO NOT WANT TO PERPETUATE OURSELVES IN POWER INDEFINITELY, BUT THERE ARE CERTAIN GOALS THAT THE NATIONAL REVOLUTIONARY GOVERNMENT INTENDS TO MEET, AND RESISTANCE TO THESE MERELY POSTPONES THE DAY WHEN IT CAN STEP DOWN." NOT A VERY DEFINITE COMMITMENT TO A SPECIFIC GRADUATION DAY, PERHAPS, BUT OPEN TO INTERPRETATION THAT THIS MILITARY GOVERNMENT, UNLIKE PREVIOUS ONES IN ECUADOR OR OTHERS IN THE HEMISPHERE, MAY NOT INTEND TO PERPETUATE ITSELF IN POWER INDEFINITELY. RODRIGUEZ HIMSELF HAS DEVELOPED A FINELY-HONED APPRECIATION FOR THE POLITICIAN/FATHER-FIGURE ROLE, BESTOWING HIS BLESSINGS ON HIS CITIZENS, AND PRACTICALLY ONCE A WEEK CAN BE SEEN SOMEWHERE IN THE STICKS INSPECTING SOME NEW DEVELOPMENT PROJECT, VISITING SOME SCHOOL, TOURING SOME FORGOTTEN CITY, PROVINCE, TOWN OR DISTRICT. THERE ARE NO RECORDED INSTANCES OF HIS KISSING BABIES AS YET, BUT THE SUSPICION LURKS THAT BENEATH HIS ARMY TUNIC IS A GREY-FLANNELED SUIT, AND AT SOME MOMENT OF HIS CHOOSING, HE WILL STEP INTO A PHONE BOOTH, PULL A CLARK KENT ON AN UNSUSPECTING PUBLIC, DECLARE THE REPUBLIC ONCE AGAIN READY FOR DEMOCRACY, AND BE OFF AND RUNNING FOR THE LEGITIMACY OF ELECTED OFFICE.

9. THE IMPORTANT THING TO BEAR IN MIND IS THAT AT LEAST FOR NOW, THE PRESENT NATIONAL REVOLUTIONARY GOVERNMENT UNDER PRESIDENT RODRIGUEZ IS WELL-ESTABLISHED AND WITHOUT SIGNIFICANT

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OPPOSITION. A BALANCING GAME IS BEING PLAYED, BUYING OFF OPPOSITION WITH CONCESSIONS WHERE IT CROPS UP, SINCE MOST

OF THE ISSUES ARE ESSENTIALLY ECONOMIC RATHER THAN POLITICAL. BUT IN TIME, POSSIBLY WITHIN THE NEXT 2-5 YEARS, RISING SOCIO-POLITICAL EXPECTATIONS WILL PROBABLY BEGIN TO OUTSTRIP THE ABILITY OF THIS (OR ANY, COME TO THAT) GOVERNMENT TO DEAL WITH THEM. THEN A MULTITUDE OF FORCES WILL BE UNLEASHED, WITH RESULTS WHICH CANNOT NOW BE PREDICTED. AT PRESENT, THESE FORCES ARE STILL ESSENTIALLY LATENT.

10. ON THE HUMAN RIGHTS FRONT, WE BELIEVE ECUADOR'S REGIME COMPARES FAVORABLY WITH MANY LATIN AMERICAN GOVERNMENTS. THE PRESS REMAINS FREE TO CRITICISE THE GOVERNMENT AND PRINT MESSAGES FROM OUT-OF-POWER POLITICAL ELEMENTS, AND THE GOVERNMENT HAS BY AND LARGE RESEPECTED BASIC CIVIL RIGHTS. AS OF THIS WRITING, THE GOE HOLDS NO "POLITICAL" PRISONERS, ALTHOUGH THERE HAVE BEEN A HANDFUL OF POLITICAL ARRESTS (ALL SINCE RELEASED) IN THE PAST THREE YEARS.

11. INTERNAL ECONOMIC DEVELOPMENTS: THE PRINCIPAL POLICY ISSUES FACING THE COUNTRY ARE RELATIVELY WELL-DEFINED, AND THEY ARE MOSTLY ECONOMIC. FIRST IS INFLATION. AFTER A NUMBER OF YEARS OF CHUGGING ALONG AT THE QUITE REASONABLE PACE OF 4-6 PERCENT PER YEAR, ECUADOR HAS WITHIN THE LAST TWO YEARS SEEN ITS INFLATION STEP SMARTLY AHEAD TO THE 18-22 PERCENT RATE (LARGELY AS A RESULT OF THE INFLUX OF OIL REVENUES AND A MORE GENERALIZED WORLD MONETARY INFLATION). THIS YEAR, THE FIGURE WILL PROBABLY BE AROUND 22-25 PERCENT. MOST OF THE POPULATION DOES NOT YET SHARE THE OIL REVENUE, BUT NONETHELESS HAS TO COMPETE IN THE MARKETPLACE FOR FOOD, CLOTHING, HOUSING AND OTHER BASIC NEEDS. UNTIL DOMESTIC PRODUCTION OF BASIC COMMODITIES BEGINS TO SPREAD OUT AMONG THE MASSES, THIS COUNTRY IS GOING TO GO THROUGH A DIFFICULT PHASE WHERE THE RICH WILL GET DEMONSTRABLY RICHER (SINCE THEY OWN THE CONSTRUCTION COMPANIES, OTHER CONTRACTING GROUPS, BASIC INDUSTRY, IMPORT FIRMS, CAR DEALERSHIPS, ETC), AND THE POOR WILL HAVE TO BE SUBVENED UNTIL THEY CATCH UP.

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12. SUBVENTIONS, IN FACT, ARE THE MEANS WHEREBY THE CURRENT PEACE IS MAINTAINED, FOR THE SECOND IMPORTANT THING TO NOTE ABOUT THE ECUADOREAN ECONOMY IS THAT OIL REVENUES HAVE ENABLED THIS GOVERNMENT TO BUY ITS WAY OUT OF JUST ABOUT EVERY SIGNIFICANT PROBLEM THAT HAS COME ALONG. THE DOCTORS, FOR EXAMPLE, HAD THREE BASIC ISSUES: THE HIGH COST OF PHARMACEUTICALS, THE LOW LEVEL OF GOVERNMENT EXPENDITURES IN THE HEALTH SECTOR, AND THE SLIGHTLY ARTIFICIAL ONE OF WAGES. THE GOVERNMENT'S RESPONSE WAS TO BUY THEM OFF ON THE FIRST TWO, AND DRAW AND QUARTER THEM PUBLICLY ON THE THIRD (OFF WHICH PETARD THE DOCTORS QUICKLY UNHOISTED THEMSELVES). AS FOR PROTESTS OVER THE SCARCITY OF BASIC STAPLES LIKE BREAD, FLOUR, SUGAR, RICE, EDIBLE OILS, AND OTHER ITEMS, THE GOVERNMENT MAINTAINS THAT SHORTAGES ARE LARGELY DUE TO HOARDING, BUT IT HAS ALSO BEGUN SELECTIVELY SUBSIDISING IMPORTS. DURING 1974, THESE SUBSIDIES TOTALLED APPROXIMATELY  
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\$80 MILLION, BUT EVEN WITH THESE SUBVENTIONS, MANY CONSUMER ITEMS REMAIN IN SHORT SUPPLY, A SITUATION WHICH WE EXPECT WILL GET CONSIDERABLY WORSE, AT LEAST OVER THE SHORT RUN. THE COST OF GASOLINE IS SUBSIDIZED (AT ABOUT 19 CENTS PER GALLON), AND NEW ROADS ARE BEING BUILT AS FAST AS THEY CAN WITH THE EQUIPMENT AND LABOR AT HAND. THE GOVERNMENT HAS HELPED FINANCE A NUMBER OF NEW HOUSING PROJECTS, ALTHOUGH MOST OF THIS HAS BEEN MIDDLE, RATHER THAN MORE BADLY-NEEDED LOW-COST HOUSING. SHORTAGES OF CEMENT AND OTHER CONSTRUCTION MATERIALS HAVE BEEN A PROBLEM, BUT SUCH CONSTRUCTION PROGRAMS AS HAVE BEEN STARTED AT LEAST EMPLOY LARGE NUMBERS OF OTHERWISE JOBLESS POOR IN THE URBAN AREAS. CONSPICUOUS DEVELOPMENT ACTIVITY BENEFITTING LARGE NUMBERS OF PEOPLE, HOWEVER,



IS STILL CONFINED LARGELY TO QUITO AND GUAYAQUIL, LEADING TO DISCONTENT AND EVEN UNREST (AS THE RECENT CIVIL DISTURBANCES IN MANTA SHOWED) IN OTHER URBAN AREAS.

13. THE TWO MOST IMPORTANT SECTORS OF THE ECONOMY, MOREOVER, FACE ANYTHING BUT A ROSY FUTURE: AGRICULTURE AND PETROLEUM. IT IS HARD TO UNDERSTAND WHY A BASICALLY AGRICULTURAL COUNTRY IS NOT ABLE TO FEED ITSELF. YET ECUADOR MUST IMPORT (MOSTLY FROM THE US) OVER 80 PERCENT OF ITS WHEAT, MOST OF ITS OATS, HALF OF ITS MALTING BARLEY, SUBSTANTIAL PERCENTAGES OF ITS MILK AND EDIBLE OILS, AND MANY OTHER BASIC FOOD ITEMS. THE PROBLEM IS A SERIOUS ONE, BUT AT LEAST THE GOVERNMENT RECOGNIZES IT. HARDLY A WEEK GOES BY WITHOUT SOME MAJOR PRONOUNCEMENT ABOUT THIS BEING THE "YEAR OF AGRICULTURE" AND IN CONSEQUENCE THEREOF THE GOVERNMENT HAS DECIDED TO INITIATE NEW PROGRAMS OR ALLOCATE NEW FUNDS FOR FERTILIZER, LIVESTOCK DEVELOPMENT, AGRICULTURAL CREDIT, ESTABLISHMENT OF COOPERATIVES, TO TRAIN ADDITIONAL TECHNICIANS FOR THE MINISTRY OF AGRICULTURE, TO ESTABLISH NEW AGRICULTURAL/LIVESTOCK RESEARCH STATIONS, AND SO ON. IN A LAND OF MANY VOLCANOES, AGRICULTURAL POLICY HAS ITS SHARE. THE GOVERNMENT, SOLICITING THE CONTINUED PATIENCE OF URBAN DWELLERS, WANTS TO KEEP FOOD PRICES DOWN. BUT LOW PRICES REMOVE THE INCENTIVE FOR FARMERS TO GROW MORE. SHOULD IT ALLOW FARMERS HIGHER PRICES AND THEN SUBSIDIZE FOOD COSTS FOR URBAN DWELLERS? IT IS ESTIMATED THAT HALF THE PEOPLE CURRENTLY IN THE AGRICULTURAL SECTOR COULD PRODUCE THE SAME AMOUNT AS THE PRESENT NUMBERS, EVEN USING EXISTING TECHNIQUES, BUT THE GOVERNMENT WANTS TO KEEP AS

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MANY PEOPLE AS POSSIBLE EMPLOYED IN AGRICULTURE (RATHER THAN HAVE THEM UNEMPLOYED IN URBAN AREAS). SMALL-SCALE LABOR-INTENSIVE AGRICULTURE, HOWEVER, CANNOT PRODUCE ENOUGH TO FEED THE BURGEONING URBAN POPULATION. SHOULD THE GOVERNMENT TRY TO MOVE PEOPLE OFF THE MOST PRODUCTIVE LAND SO LARGE-SCALE FARMING CAN TAKE PLACE? IF SO, AND IF IT CAN, WHAT SHOULD IT DO WITH THE DISPOSSESSED? DESPITE ATTEMPTS AT LAND REFORM, THERE HAVE BEEN MORE WORDS THAN ACTION, AND MUCH OF THE MOST PRODUCTIVE LAND IS STILL IN THE HANDS OF A MINUSCULE PERCENTAGE OF THE PEOPLE -- LARGE LANDOWNERS RESIDENT IN QUITO, CUENCA, AND GUAYAQUIL.

14. AND IN THE PETROLEUM SECTOR, ECUADOR HAS EXPERIENCED INCREASING DIFFICULTIES. PLANS FOR DEVELOPMENT OF NATURAL GAS RESERVES IN THE GULF OF GUAYAQUIL WERE SUSPENDED FOR TWO YEARS, LEADING, AMONG OTHER THINGS, TO A THORNY EXPROPRIATION ISSUE INVOLVING AN AMERICAN CONSORTIUM. UNDER ITS PREVIOUS HYPER-NATIONALISTIC MINISTER OF NATURAL RESOURCES, ECUADOR PRICED ITS OIL SUFFICIENTLY ABOVE THE WORLD MARKET THAT ITS SALES AND REVENUES PLUNGED, AND IT GOT

INTO AN INCREASINGLY ACRIMONIOUS RELATIONSHIP WITH TEXACO-GULF, THE PRINCIPAL PRODUCER. FINALLY, A LANDSLIDE IN EARLY 1975 BROKE THE \$115 MILLION TRANS-ANDEAN PIPELINE THROUGH WHICH OIL IS PUMPED TO THE COAST, RESULTING IN \$0 PETROLEUM EARNINGS FOR NEARLY A MONTH. SO ALTHOUGH ECUADOR IS LIVING THROUGH A PERIOD OF STABILITY AND ECONOMIC DEVELOPMENT BROUGHT WITH OIL REVENUES THAT UP UNTIL NOW HAVE BEEN SUFFICIENT TO PROVIDE SOLUTIONS TO PROBLEMS AS THEY OCCURRED, THE HORIZON IS NOT CLOUD-FREE. BECAUSE OF THE LIMITED SIZE OF KNOWN AND EXPLOITED PETROLEUM RESERVES, AND IN THE ABSENCE OF SIGNIFICANT NEW DISCOVERIES, REVENUES WILL PROBABLY, WITHIN ANOTHER TWO YEARS OR SO START TO BE OUTSTRIPPED BY THE EXPECTATIONS THAT HAVE BEEN AROUSED, AND THE GOVERNMENT WILL NO LONGER BE ABLE TO BUY ITS WAY OUT OF CONFRONTATION SITUATIONS WITH PRESSURE GROUPS. IT THUS NEEDS TO BEGIN PLANNING NOW FOR THE TIME WHEN THE LINEAR PATH OF RISING EXPECTATIONS CROSSES AND EXCEEDS THE PATH OF RESOURCES WITH WHICH TO FINANCE THEM AND SEVERE STRAINS BEGIN TO BE FELT WITHIN THIS INCREASINGLY SENSITIVE SOCIETY.

15. INTERNATIONAL RELATIONS: ECUADOR'S INTERNATIONAL RE-  
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LATIONS CONTINUE TO BE DOMINATED BY HER SEARCH FOR AN IDENTIFY WITHIN AN INDEPENDENT LATIN AMERICA, AND FOR A WAY TO AMELIORATE HER PRESENT DEPENDENCE UPON THE US. AS A MEANS TO THIS END, SHE HAS ACTIVELY SOUGHT TO ESTABLISH CREDENTIALS AS A MEMBER IN GOOD STANDING OF THE THIRD WORLD, A TACTIC WHICH HAS BOTH SUCCEEDED (IN THE SENSE THAT THE CREDENTIALS HAVE BEEN FIRMLY ESTABLISHED), AND BACKFIRED (IN THAT HER MEMBERSHIP IN OPEC, FOR EXAMPLE, HAS LOST HER THE GENERALIZED TARIFF PREFERENCES SHE WOULD HAVE GAINED UNDER THE US TRADE REFORM ACT, INCURRED THE OPPROBRIUM OF THE US CONGRESS OVER THE FISHING DISPUTE, AND LOST HER THE SOFT-LOAN ELIGIBILITY SHE WANTS IN THE IDB, IBRD, ECT.). ECUADOR HAS ALSO MOVED TO STRENGTHEN HER TIES WITH HEMISPHERE NEIGHBORS THROUGH MEMBERSHIP IN SUCH REGIONAL ORGANIZATIONS

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AGR-05

CU-02 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 IO-10 STR-04

OES-03 CEA-01 FEA-01 OFA-01 /109 W

----- 117289

R 041406Z APR 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 5043

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY SANTIAGO

C O N F I D E N T I A L FINAL SECTION OF 4 QUITO 2278

AS OLADE, ALALC, THE ANDEAN PACT, ETC. HER ONLY SIGNIFICANT DISPUTE WITH A NEIGHBOR INVOLVES HER PROFOUND GRUDGE AGAINST PERU OVER THE AMAZONIAN TERRITORY LOST IN 1942. DESPITE INDICATIONS WEHAVE HAD OF PENDING RAPPROCHEMENT WITH LIMA, CONCERN OVER EVENTS TAKING PLACE IN PERU UNDOUBTEDLY CONTRIBUTES TO AN EXPLANATION OF THE URGENCY ECUADOR ATTACHES TO BUILDING UP AT LEAST A CREDIBLE DEFENSIVE FORCE. IT ALSO HELPS EXPLAIN ECUADOR'S COMMITMENT TO THE INTERNATIONAL ORGANIZATIONS (UN AND OAS) WHICH SHE MAY SOME DAY HAVE TO TURN TO FOR HELP SHOULD THERE BE RENEWED AGGRESSION FROM THE SOUTH. IT MAY ALSO ACCOUNT, IN PART, FOR THE ATTENTION ECUADOR HAS DEVOTED TO BUILDING TIES WITH VENEZUELA, FELLOW OPEC PARIAH, WEALTHY AND POTENTIALLY POWERFUL COUNTERBALANCE TO HER PRESENT DEPENDENCE UPON THE US.

16. THERE HAVE BEEN SOME BENEFITS FROM HER INTERNATIONAL  
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ACTIVITY. QUITO IS NOW ON THE WORLD MAP. SHE HOSTED SEVERAL IMPORTANT INTERNATIONAL AND REGIONAL CONFERENCES LAST YEAR, INCLUDING THE IA-ECOSOC CONFERENCE, AN OPEC MINISTERIAL CONFERENCE, AND THE OAS FOREIGN MINISTERS MEETING ON CUBA. PRESIDENT RODRIGUEZ' RECENT PILGRIMAGE TO THE OPEC SUMMIT IN ALGIERS, THEN ON TO RUMANIA AND VENEZUELA, SERVED A NUMBER OF PURPOSES. DOMESTICALLY, IT DEMONSTRATED THE STABILITY OF

HIS GOVERNMENT, SINCE HE WAS STILL PRESIDENT WHEN HE RETURNED. IT GAVE ECUADOR AN OPPORTUNITY TO BURNISH ITS THIRD WORLD CREDENTIALS, A STEP FURTHER FROM ITS BANANA-REPUBLIC IMAGE. AND IT PROVIDED ECUADOREANS A CHANCE TO THINK ANEW ABOUT THE MERITS OF THEIR OPEC MEMBERSHIP. RODRIGUEZ ASKED FOR ECONOMIC ASSISTANCE FROM SOME OF THE WEALTHIER OPEC MEMBERS, AND MAY BE TEMPTED TO TRY TO BARGAIN SERIOUSLY FOR THIS AS PART OF THE PRICE FOR ECUADOR'S CONTINUED MEMBERSHIP.

17. RELATIONS WITH THE US: THERE ARE A NUMBER OF OUTSTANDING OR POTENTIAL DISPUTES WITH THE US, ALMOST ALL RELATED TO NATURAL RESOURCES OR TERRITORIAL SOVEREIGNTY. THE ACRIMONIOUS HASSLE OVER COMPENSATION DUE ADA (A CONSORTIUM WHICH HAD BEEN GRANTED THE RIGHT TO EXPLORE FOR AND EXPLOIT GAS FOUND IN THE GULF OF GUAYAQUIL UNDER A FORMER CIVILIAN GOVERNMENT) APPEARS TO BE ON THE WAY TO RESOLUTION, AND ANOTHER US FIRM, NORTHWESTERN PIPELINE, HAS BEEN AWARDED A REPLACEMENT CONTRACT. ECUADOR'S OIL PRICES SEEM LIKELY TO BE BROUGHT SUBSTANTIALLY INTO LINE WITH THE INTERNATIONAL MARKET, SO HERE OIL WILL BE ONCE AGAIN COMPETITIVE, AMELIORATING SOMEWHAT THE ONUS THAT HAD ATTACHED TO TEXACO-GULF FOR NOT LIFTING OIL FOR A PROTRACTED PERIOD. SENIOR TEXACO-GULF REPRESENTATIVES RECENTLY HAD A PRIVATE SESSION WITH RODRIGUEZ IN WHICH THE LATTER PROMISED TO EXAMINE THEIR GRIEVANCES, AND WHICH TEXACO-GULF HOPES WILL RESOLVE ITS PROBLEMS SO IT CAN CONTINUE ITS OPERATIONS HERE. WITH THE WAIVER IN JANUARY 1974 OF FMS SANCTION, TIES BETWEEN OUR MILITARY SERVICES NOTICEABLY IMPROVED, AND ECUADOR PURCHASED A SIGNIFICANT AMOUNT OF MILITARY EQUIPMENT TO RE-EQUIP ITS DEBILITATED ARMED FORCES. ECUADOR WOULD LIKE TO PURCHASE ADDITIONAL MILITARY EQUIPMENT FROM THE US, AND WANTS THIS TO BE UNDER FMS, BUT NOW, UNFORTUNATELY, FMS IS ONCE AGAIN AN ISSUE, FOLLOWING SEIZURES OF US FISHING BOATS IN JANUARY 1975. A FURTHER FRUSTRATION IS THE LONG LEAD TIME FOR DELIVERY OF

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EVEN QUITE SIMPLE EQUIPMENT, FOR DESPITE HIGH UNEMPLOYMENT AND CLOSED FACTORIES, WE APPEAR UNABLE TO FILL ORDERS FOR TRACTORS, BULLDOZERS, TRUCKS, AND OTHER SUCH EQUIPMENT IN MUCH LESS THAN SEVERAL YEARS.

18. FOR HER PART, ECUADOR HAS PULLED AT SOME OF THE EALGE'S TAIL FEATHERS. ALTHOUGH ECUADOR WAS AWARE FROM PAST EXPERIENCE THAT THE US HAS LEGISLATION IMPOSING PENALITIES AGAINST COUNTRIES THAT SEIZE US FISHING BOATS, ECUADOR REPEATED ITS DETERMINATION TO ENFORCE ITS 200-MILE LIMIT, AND, CONFRONTED WITH UNLICENSED US FISHING BOATS, SEIZED AND FINED THEM AND CONFISCATED THEIR CATCHES. SHE HAS RESTRICTED THE SALE OF LICENSES TO VESSELS UNDER 600 NET REGISTERED TONS, A MEASURE AFFECTING OUR NEWEST AND MOST

MODERN SHIPS. AND PERHAPS REALIZING THAT HER OWN COMMERCE WAS INCONSEQUENTIAL, SHE RALLIED OTHER LATIN AMERICAN NATIONS (WHO HAD FAR MORE TO GAIN FROM THE TRADE REFORM ACT THAN SHE) AGAINST THE TRA, AND WITH VENEZUELA IN TOW, FORCED THE POST-PONEMENT OF THE BUENOS AIRES FOREIGN MINISTERS' CONFERENCE. TWEAKING UNCLE SAM'S BEARD IS CONSISTENT WITH ECUADOR'S DEFENSE OF ITS NATIONAL PATRIMONY, AS WELL AS ITS OBJECTIVE OF ESTABLISHING CREDENTIALS WITH THE THIRD WORLD. IT BRINGS THE ADDED BONUS OF ENABLING THE MILITARY GOVERNMENT TO PORTRAY ITSELF AS GENUINELY NATIONALISTIC, NOT THE TOADY OF THE COLOSSUS. NONE OF WHICH APPEARS TO HAVE DIMINISHED ECUADOR'S DESIRE FOR DEVELOPMENT CREDITS, HELP IN MODERNIZING ITS ARMED FORCES, CHEAP AMERICAN FOODSTUFFS, OR ACCESS TO MEDICAL TREATMENT IN AMERICAN HOSPITALS.

19. WE HAVE OURSELVES UNDERTAKEN THREE ACTS WHICH HAVE NOT HELPED OUR POSITION IN THIS COUNTRY. FIRST, DESPITE AMPLE WARNING SIGNS, WE ADOPTED A TRADE REFORM ACT WHICH PENALIZED ECUADOR AND VENEZUELA IN THE RETRIBUTION WE SOUGHT TO INFLICT UPON THE OPEC MEMBERS WHO EMBARGOED OIL SHIPMENTS TO THE US LAST WINTER. SECOND, AT A TIME WHEN ECUADOR IS FINALLY ABLE TO BEGIN USING ECONOMIC ASSISTANCE FOR ITS OWN DEVELOPMENT, AND SUSPECTS THE US OF TRYING, FOR POLITICAL REASONS, TO HAMPER THIS, WE HAVE CHOSED TO PROVE THE POINT BY TERMINATING OUR OWN ECONOMIC AID AND USING OUR SUASION OR VETO TO CUT ECUADOR OFF FROM ACCESS TO SOFT LOANS IN THE IBRD AND IDB. AND THIRD, JUST AS OUR RELATIONS WERE

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STARTING TO RECUPERATE FROM THE FMS SUSPENSION THAT LASTED UNTIL JANUARY 1974, WE HAVE BEEN FORCED BY US LEGISLATION TO SUSPEND FMS ONCE AGAIN, PENDING REVIEW, FOLLOWING THE RENEWED SEIZURES OF UNLICENSED US FISHING BOATS.

20. THE SUMMING UP: ECUADOR HAS TRADITIONALLY BEEN A FRIEND AND A PARTNER, ALTHOUGH NOT ALWAYS AN EASY OR SUPINE ONE. CONSONANT WITH THE GENERAL POLITICAL AND ECONOMIC CHANGES IN THE THRID WORLD, MAINTAINING OUR PAST FAVORABLE RELATIONSHIP IS RAPIDLY BECOMING A CHALLENGE. IT IS A CHALLENGE WE CAN AND SHOULD MEET, HOWEVER, FOR IT IS BUT REPRESENTATIVE OF THE PROBLEMS WE FACE IN MOST COUNTRIES OF THE THIRD WORLD. THE ADJUSTMENTS WE ARE BEING CALLED UPON TO MAKE HERE ARE NOT SIGNIFICANTLY DIFFERENT FROM THOSE WE FACE IN OTHER AREAS. ECUADOR IS NEITHER POWERFUL NOR PARTICULARLY IMPORTANT TO US, EXCEPT INsofar AS IT PROVIDES US WITH CERTAIN RAW MATERIALS AND TROPICAL AGRICULTURAL PRODUCTS, BUT IT DOES HAVE A CERTAIN DEPENDENCY UPON US, AND IT CAN BE EITHER HELPFUL TO US, OR A DECIDED NUISANCE. IT IS PRESENTLY IN A PERIOD OF ALMOST REMARKABLE STABILITY AND ECONOMIC GROWTH, DEVELOPMENTS WHICH ARE HIGHLY FAVORABLE

TO OUR LONG-TERM INTERESTS BOTH IN ECUADOR AND IN THIS  
HEMISPHERE, AND WHICH WE WOULD BE WISE TO TRY TO FURTHER.  
VIRTUALLY ALL OF THE PRESENT POINTS OF FRICTION ARE EASILY  
RESOLVABLE WITH NO DETRIMENT TO EITHER OUR OR ECUADOR'S  
BASIC INTEREST. PROVIDED THAT THERE IS NO FUNDAMENTAL  
CHANGE IN ECUADOR'S STANCE, AND IN PARTICULAR, NO DRIFT  
TOWARD "PERUVIANIZATION", THE PATH OF OUR RELATIONSHIP  
SHOULD CONTINUE TO BE MUTUALLY SATISFACTORY. ECUADOR IS,  
OF COURSE, GOING TO BE INCREASINGLY FACED WITH INTERNAL  
PROBLEMS WHICH, AS THE MEANS WHEREBY SHE CAN PURCHASE  
SOLUTIONS DIMINISH RELATIVE TO THE NEED, MAY LEAD TO  
INCREASING INSTABILITY. BUT THESE ARE PROBLEMS WHICH  
(APART FROM THE ACTIONS WE CAN TAKE TO REDUCE BILATERAL  
FRICTION) SHE WILL LARGELY HAVE TO WORK OUT FOR HERSELF.  
BREWSTER

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